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Factor analysis on IFRS Adoption: A survey study on lenders, users and audit firms' perspective in West Hararghe Zone, Oromia Regional State, Ethiopia

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The adoption of International Financial Reporting Standards (IFRS) around the world is occurring rapidly to bring about accounting quality improvement through a uniform set of standards for financial reporting standards and harmonization of reporting procedures. For the same purpose, Ethiopia begins the IFRS adoption process since the year 2014. For this study, 200 questionnaires were distributed and administered to collect the required data and the collected data were analyzed using SPSS21. This study also employed descriptive statistics and dimension reduction model to make factor analysis. Based on the model output five (5), major variables were found significant with 66.22% cumulative initial eigenvalue. The main significant variables were adaptability, suitability, constraints, necessity and perceived benefits respectively. Furthermore, upon the findings found, researchers forwarded continuous professional career development, partnership and cooperation with stakeholders and government commitment for allocation of adequate budget should be made for successful adoption of IFRS.

Key words: IFRS adoption, factor analysis, West Hararghe, Ethiopia.

INTRODUCTION

International Financial Reporting Standards (IFRS) have been known long time ago under the name International Accounting Standard (IAS). IAS was issued since 1973-2000 by International Accounting Standards Committee (IASC). It was issued in order to fix the global accounting standard thus there would be better financial understanding of all companies. However, on April 1, 2001 International Accounting Standard Board (IASB) replaced the IASC and took over responsibility to build international accounting standard and named it IFRS (IFRS Foundation, 2010). IFRS has been a trending topic since the European Union (EU) decides to converge their financial reporting standard to IFRS, leaving the US Generally Accepted Accounting Principles (US GAAP) (Latifah et al., 2012). The essence of IFRS was to develop a set of accounting standards that will ensure preparation of a quality set of financial statement throughout the world (IFRS, 2014).

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Since the introduction of the globalization process, the interest shown for the harmonization of the financial reporting process by introducing a unitary set of international financial reporting standards at global level has also increased. According to (AICPA, 2016) and (Masoud, 2014), IFRS has become the most popular set of financial reporting standards used globally and the number of the countries adopted IFRS at different stages reached 120. Speeding up of this process of convergence or harmonization of the local regulations with the IFRS was to fulfil the informational needs of the market players (Saidi, 2013), or the idea that the existing differences between the local accounting systems represent significant obstacles in the process of foreign investors' understanding of the accounting information disclosed in the financial statements of other countries (Constantin and Loredana, 2011).

Currently, there is a worldwide trend for a move towards converging local accounting standards with the IFRS issued by the IAS. The standards are now used by various countries around the world, and have announced IFRS convergence by 2011 (Chan et al., 2010). According to the survey by Deloitte (2010), more than one hundred countries around the world have either adopted or intend to adopt the IFRS for their domestic companies. As of December 2011, China on the other hand has substantially converged their national standards with IFRS (IFRS Foundation, 2012).

The increasing growth in international trade and investment has brought to the fore the craze for adoption of IFRS by both the developed and developing countries. A number of African countries including Nigeria, Ghana, Sierra Leone, South Africa, Kenya, Zimbabwe, Tunisia and Ethiopia among others, have adopted or declared intentions to adopt the standard. This is a welcome development considering the fact that the quality of financial reporting is essential to the needs of users who require useful accounting information for investment and other decision-making purposes. Information emanating from financial reporting is regarded as useful when it faithfully represents the 'economic substance' of an organization in terms of relevance, reliability and comparability (Spiceland et al., 2003). Thus, high-quality financial reports which IFRSs have the potential to support should produce financial information that report events timely and faithfully in the period in which they occur.

In this regard, Ethiopia has expressed an initiative to integrate its financial statements with international standards. According to World Bank on the report on the observance of Standards and Codes, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions (ROSC, 2007). As a result, National bank of Ethiopia, Ministry of finance and economic development and other government institutions are working together towards the adoption of this international standard in Ethiopia. The National Bank of Ethiopia has already required the banks to prepare their financial statements in accordance with IFRS. In 2011 Ministry of Finance and Economic Development (MoFED) issued a draft proclamation. The proclamation requires reporting entities in Ethiopia to follow IFRS (MOFED, 2011). For this purpose, the government through the Council of Minsters Regulation setting-up Accountants and Auditors Board of Ethiopia (AABE). The Proclamation sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating IFRS adoption and implementation process in Ethiopia (AABE, 2014).

Though the relevance of adoption of international accounting standards have always been a subject of intense controversy, yet, a number of countries in Africa have adopted or plan to adopt IFRS. However, there are many questions which relate to whether the adoption will be beneficial to the countries involved in terms of enhancing transparency in financial reporting that require to be answered. IFRS is more principled-based and does not provide issuers with the same degree of detailed guidance for the preparation of financial statements, or the use of GAAP (Iyoha and Owolabi, 2012).

The Accounting and Auditing Board of Ethiopia mandated for the adoption process of IFRS in Ethiopia and the board plans a three-phase transition over a period of three years for reporting entities in Ethiopia. Even though, the board exerted much effort on adoption of IFRS in Ethiopia before the implementation of mandatory adoption. It identified many problems associated with institutions to realize the adoption and implementation process of the system. Poor knowledge, low level of awareness for preparers and users of financial statements, regulators, educators, auditors and other stakeholders are some of the exiting gaps in IFRS adoption (AABE, 2014). Due to the above-mentioned problems and other related gaps; the researchers have been conducted this research to make factor analysis on IFRS adoption process in the study area.

MATERIALS AND METHODS

Description of the study area

West Hararge is one of the Zones in the Ethiopian region of Oromia. West Hararghe takes its name from the former province of Hararghe. West Harerge is bordered on the south by the Shebelle River which separates it from Bale, on the southwest by Arsi, on the northwest by the Afar Region, on the north by the Somali Region and on the east by East Hararghe.

Research design and strategy

The study employed descriptive research design using qualitative and quantitative research approach.

Primary data

Primary data was collected from representative sample respondents using both open ended and closed ended questioners from lenders, users and audit firm employees who are serving in finance, cost and budget and general accounts department.

Secondary data

Secondary data was collected from different sources using document reviews on previous financial reports and other related documents. Moreover, books, journals and articles will be used to substantiate related information from different relevant sources.

Data source and type

The researchers used both Primary and secondary data sources to collect the desired information from representative sample respondents, documents and relevant sources. Primary data were collected from respondents using open ended and closed ended questioners using 5-point Likert scales (that is 5 Strongly Agree, 4 Agree, 3 Neutral, 2 Disagree and 1 strongly Disagree). In addition to this, secondary data were collected from books, proceedings, government reports, financial institution reports, journals and articles. Besides, the researchers made document analysis on lenders, users and audit firms of the zone to have adequate information of IFRS adoption.

Sampling technique and sampling procedures

Comrey and Lee (1992) offered a rough rating scale for adequate sample sizes determination in factor analysis as below 100 (poor), 200 (fair), 300 (good), 500 (very good) and greater than 500 (excellent). Thus, for this research; researchers will select representative sample sizes using rule of thumb method mentioned. The researchers selected 200 sample employees based on the rule of thumb method from selected organizations to get representative data using probability proportion to sample size method (PPSS).

Model specification

Factor analysis is designed for interval data, although it can also be used for ordinal data (e.g. scores assigned to Likert scales). The variables used in factor analysis should be linearly related to each other. This can be checked by looking at scatterplots of pairs of variables. Obviously the variables must also be at least moderately correlated to each other; otherwise the number of factors will be almost the same as the number of original variables, which means that carrying out a factor analysis would be pointless (Rencher, 2005).

Factor analysis uses mathematical procedures for the simplification of interrelated measures to discover patterns in a set of variables (Child, 2006). Factor analysis equation or formula is as follows:

$$X1 = Ai1F1 + Ai2F2 + Ai3F3 + Ai4F4 + \ldots\ldots\ldots\ldots + ViUi \quad (1)$$

Where, Fi = standardized variables to i, Ai1 = regression coefficient to the variable I on unique factors to I, Vi = standardized regression coefficient of variable i on factors unique to the i th, F = Common factor, Ui = unique variable to variable to i, M = number of common factors.

Details common factors can be formulated as follows:

$$Fi = Wi1X1 + Wi2X2 + Wi3X3 + \ldots\ldots\ldots\ldots + WikXk \quad (2)$$

Where, Fi = Factor to estimate I, Wi = Weighting factor or factor or factor score coefficients, Xk = Number of variables

RESULTS AND DISCUSSION

For this study the researchers distributed and collected 200 questionnaires. The collected data was analyzed using SPSS version 20 and presented systematically using descriptive statistics and applied factor analysis model to generate determinant factors affecting IFRS adoption.

Background of respondents and type of organizations for IFRS adoption

As it is shown in Table 1 from the total respondents, 145 (72.5%) were males and the remaining 55 (27.5%) were females. This revealed that most of the experts in organizations are males. From the total respondents, 46 (23%) had an experience below 5 years, 102 (51%) had between 5 to 15 years and the remaining 52 (26%) had more than or equal to 15 years of experience within the organization. The data revealed that most of the employees are well experienced and skillful to understand the IFRS adoption process.

In terms of their qualification level, 13 (6.5%) were diploma holders, 153 (76.5%) were degree holders and the remaining 34 (17%) were master's degree holders. Thus, the data revealed that most respondents are first degree and master's degree holders. In line with this, the respondents' field of qualification during their graduation were accounting, management and economics that constitutes 141 (70.5%), 24 (12%) and 35 (17.5%) respectively. Thus, the highest percentage (that is 70.5%) had qualification in accountancy which helps them to understand the IFRS adoption process in their respective organizations (Table 2).

For the IFRS adoption, the Accounting and Auditing Board in collaboration with the government selected 3 priority areas of organizations. The selected organizations are Public and Private enterprises, other Public interest enterprises and SMEs to make first phase adoption for IFRS (AABE, 2014).

Accordingly, data collected from respondents showed that 113 (56.5%), 37 (18.5%) and the remaining 50 (25%) was from public and private enterprises, other public enterprises and SMEs respectively. From these enterprises, 132 (66%), 53 (26.5%) and the remaining 15 (7.5%) used modified cash base, IFRS and accrual base accounting system respectively. From these enterprises, 20 (10%), 63 (31.5%) and 117 (58.5%) were fully

Table 1. Background of respondents.

Background of respondent		Frequency	Percent	Cumulative percent
Sex of Respondent	Male	145	72.5	72.5
	Female	55	27.5	100.0
	Total	200	100.0	
Years of experience	< 5.00	46	23.0	23.0
	5.00 - 14.00	102	51.0	74.0
	>=15	52	26.0	100.0
	Total	200	100.0	
Qualification	Diploma	13	6.5	6.5
	Degree	153	76.5	83.0
	Masters	34	17.0	100.0
	Total	200	100.0	
Field of qualification	Accounting	141	70.5	70.5
	Management	24	12.0	82.5
	Economics	35	17.5	100.0
	Total	200	100.0	

Source: Own Survey Result (2019).

Table 2. Type of organizations and level of IFRS adoption.

Type of organizations and level of IFRS adoption		Frequency	Percent	Cumulative percent
Type of Organization	Public and Private enterprises	113	56.5	56.5
	Other Public Interest	37	18.5	75.0
	SMEs	50	25.0	100.0
	Total	200	100.0	
Accounting System	Modified Cash Base	132	66.0	66.0
	IFRS	53	26.5	92.5
	Accrual Base	15	7.5	100.0
	Total	200	100.0	
Level of Adoption	Fully Adopted	20	10.0	10.0
	Partially Adopted	63	31.5	41.5
	Ready to adopt	117	58.5	100.0
	Total	200	100.0	

Source: Own Survey Result (2019).

adopters, partially adopters and ready to adopt the IFRS respectively.

Benefits of IFRS adopting for organizations

Respondents asked to explain the benefits of IFRS adoption for entities explained that; IFRS adoption has better reflection of performance, management of the organization like it, improved comparability and smoother fiancé from aboard respectively. According to their response rate, 180 (90%) responded better reflection of performance, 170 (85%) responded management of the organization like it for better decision, 165 (82.5%) responded improved comparability and 120 (60%) responded smoother fiancé from abroad are some of the

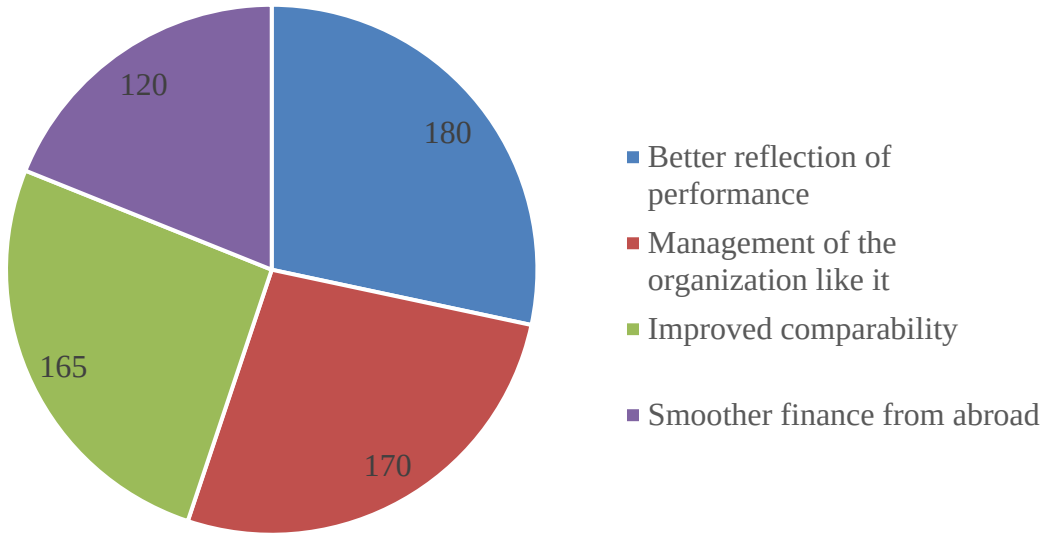

Figure 1. Pie Chart showing benefits of IFRS adoption for entities.

Table 3. Benefits of IFRS Adoption for Investors.

Benefits of IFRS Adoption for Investors (multiple response)	Frequency	Percent
Ease for communication	190	95
Better information for decision-making	189	94.5
Easier access to financial reporting	185	92.5
More confidence in the information presented	180	90
Better understanding of risk and return	117	58.5
More timely financial reports	112	56

Source: Own Survey Result (2019).

benefits of IFRS adoption for organizations. Based on their response rate, most, 180 (90%) respondents explained that IFRS adoption has better reflection of performance for entities followed by management of the organization likes for better decision-making support.

IFRS adoption has its own benefits for investors. Literatures done previously showed that investors are much benefited from the adoption process. Based on respondents response about investors benefit from the IFRS adoption 190 (95%) explained IFRS ease for communication, 189 (94.5%) responded IFRS provided better information for decision making, 185 (92.5%) expressed IFRS provide easier access to financial reporting, 180 (90%) explained IFRS guaranteed more confidence in the information presented, 117 (58.5%) explained IFRS provide better understanding of risk and return and the remaining 112 (56%) expressed IFRS provided more timely financial reports respectively (Figure 1 and Table 3).

Based on the respondents response rate, most 190 (95%) explained that the IFRS adoption has ease to have effective commination with internal and external users of information followed by better information acquired for decision making.

IFRS adoption has its own benefits for policy makers (Table 4). Different authors and literatures defined that creditability for the attraction of foreign direct investment, establishment and expansion of capital market, greater mobility of capital, efficient allocation of resources, and improved quality of financial reporting are some of the benefits of the adoption.

Similarly, for respondents asked to explain some benefits of IFRS adoption, 190 (95%) expressed more realistic planning experiences, 186 (93%) better information for controlling and decision making, 172 (86%) better access to the global capital market, 145 (72.5%) promotion of cross border investment opportunities and 130 (65%) strengthened to begin effective capital market respectively are some of the benefits acquired from IFRS adoption.

Table 4. Benefits for policy makers.

Benefits for policy makers	Frequency	Percent
More realistic planning experiences	190	95
Better information for control and decision-making purposes	186	93
Better access to the global capital markets	172	86
Promotion of cross-border investment	145	72.5
Strengthened to begin effective capital market	130	65

Source: Own Survey Result (2019).

Table 5. Benefits for national regulatory bodies.

Benefits for national regulatory bodies (multiple response)	Frequency	Percent
Improved regulatory oversight and enforcement	179	89.5
A higher standard of financial disclosure	170	85
Better information for market participants	150	75
Better ability to attract foreign companies	130	65

Source: Own Survey Result (2019).

Table 6. Reasons for non-adoption of IFRS.

Reasons of not adopting IFRS	Frequency	Percent
Lack of skills	200	100
Costs are more than benefits	150	75
Lack of knowledge	170	85
Unwillingness to change	120	60

Source: Own Survey Result (2019).

The benefits of effective and efficient financial reporting for companies have its own importance for different organizations. IFRS lead to improved comparability, credibility, and reliability of financial statements, enhanced transparency through disclosure of information, enhanced investor confidence, improved regulatory oversight, greater credibility and control for the accounting system used by different entities.

Based on the above table respondents mentioned some of the benefits of IFRS adoption in an organization. Upon their response 179 (89.5%) explained improved regulatory oversight and enforcement, 170 (85%) a higher standard of financial disclosure, 150(75%) better information for market participants and 130 (65%) better ability to attract foreign companies were some of the benefits of IFRS adoption respectively (Table 5).

Challenges of adopting IFRS

From the total respondents asked to respond for challenges faced for IFRS adoption process, 185 (92.5%) answered user guide complexity, 190 (95%) answered complexity of conversion, 165 (82.5%) answered required more staff, 155 (77.5%) frequent review of standards, 180 (90%) lack of skill to implement, 120 (60%) explained retention of key employees, 140 (70%) responded compliance and enforcement and 115 (57.5%) responded cost of implementation of the IFRS were some of the challenges of IFRS adoption. Hence, from the listed challenges above complexity of conversion from GAAP to IFRS was first followed by user guide complexity in the study area.

From Table 6, respondents expressed reasons for no adoption of the IFRS in their organizations. Based on their response, lack of skills and costs are more than benefits, lack of knowledge and unwillingness to accept changes from GAPP to IFRS are some of the few reasons for non-adoption of IFRS. From these reasons, lack of skill counts for 200 (100%) followed by cost of IFRS adoption which was more than benefits that was 150 (75%). Furthermore, respondents also mentioned

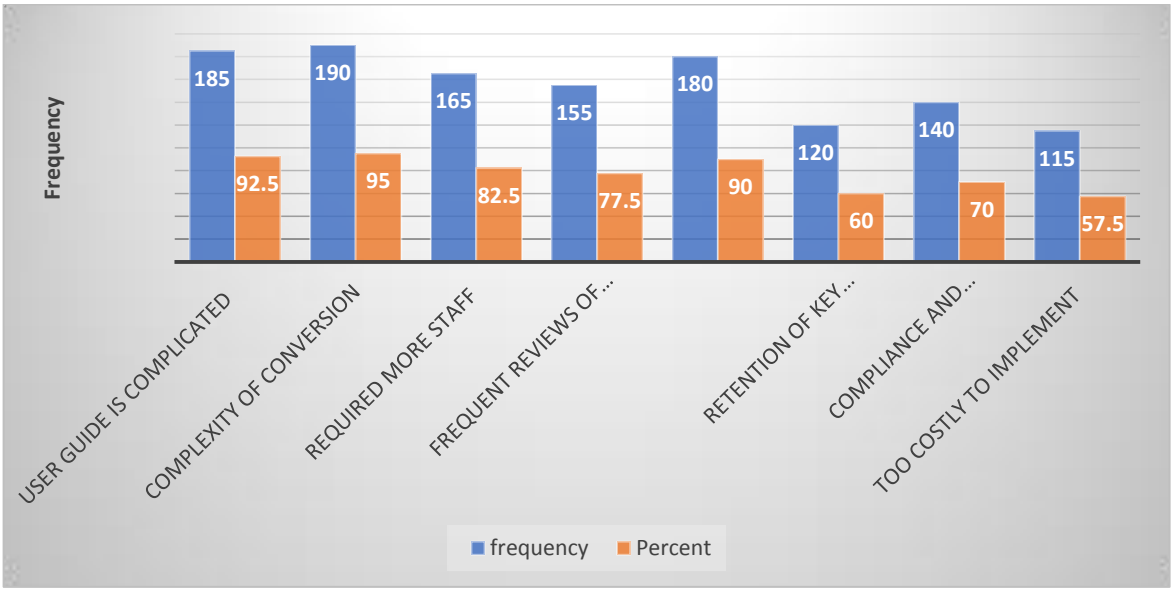

Figure 2. Bar chart showing Challenges of IFRS Adoption.

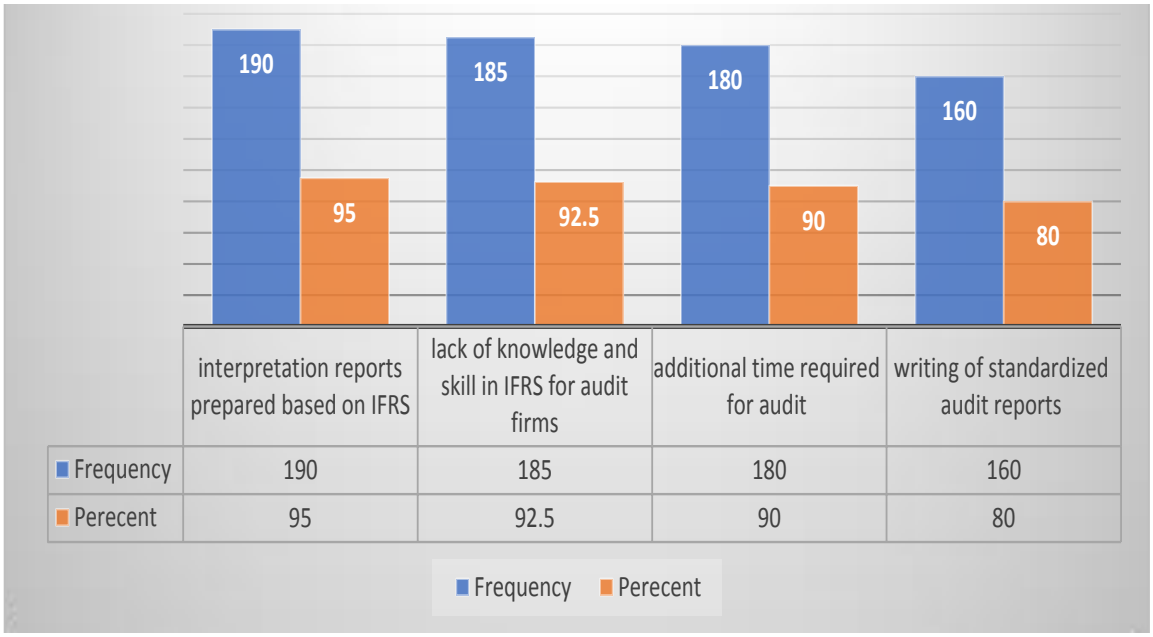

Figure 3. Challenges of IFRS for Audit Firms.
Source: Own bar chart (2019).

that lack of knowledge accounted for 170 (85%) and unwillingness to accept changes accounted 120 (60%).

Figure 2 and 3 shows the challenges of IFRS adoption for audit firms. Respondents expressed some of the challenges faced by audit firms during verification of financial statements and other related documents prepared based on IFRS. The challenges are interpretation of reports prepared based on IFRS, lack of knowledge and skill in IFRS for audit firms, additional time required for audit and writing of standardized audit reports based on respondents response. Based on the data output, 190 (95%) responded interpretation reports prepared based on IFRS is the first challenge followed by 185 (92.5) for lack of knowledge and skills for IFRS, 180

Table 7. Necessity for IFRS Adoption.

Necessity for IFRS adoption	Descriptive statistics				
	N	Minimum	Maximum	Mean	Std. deviation
Improve quality of financial report	200	1.00	5.00	4.48	1.01
Enhance reliability of financial report	200	1.00	5.00	4.05	1.19
Need to comply with global best practice	200	1.00	5.00	3.77	1.23
Improve accuracy of data reporting	200	1.00	5.00	3.67	1.36
Valid N (listwise)	200				

Source: Own Survey Result (2019).

Table 8. Perceived Benefit of IFRS Adoption.

Perceived benefit of IFRS adoption	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Dev.
Attraction of foreign investment	200	1.00	5.00	3.17	1.06
Increased access to funds	200	1.00	5.00	3.24	1.01
Attraction of local investment	200	2.00	5.00	3.28	0.97
Increased market liquidity and value	200	2.00	5.00	3.20	0.76
Better understanding of risk and return	200	1.00	5.00	3.17	1.14
Valid N (listwise)	200				

Source: Own Survey Result (2019).

(90%) for additional time required for audit firms for assurance and 160 (80%) for difficulty in writing standardized audit reports.

Factors affecting IFRS adoption process

Necessity for IFRS adoption

In the process of IFRS adoption there are different factors that affect its adoption. Among other factors necessity for IFRS adoption is one of the major factors that determine its adoption. Under necessity there are four (4) factors. These factors have an effect on improving quality of financial report, enhancing reliability of financial report, need to comply with global best practice and improving accuracy of data reporting (Table 7).

The influence of these factors is measured using five (5) point Likert scale. The minimum is 1 (highly disagree) and the maximum is 5 (highly agree). The average mean determined showed 4.48, 4.05, 3.77 and 3.67 for the above factors respectively with a standard deviation of 1.01, 1.19, 1.23 and 1.36 respectively. This revealed that most respondents agreed for the factors to affect the IFRS adoption process.

Perceived Benefit of IFRS Adoption

The second major factor is perceived benefits for the IFRS adoption. Under this variable there are 5 factors that mainly affects the adoption process based on the respondents' explanation. The first factor is attraction of foreign investment. This variable showed minimum score 1 (highly disagree) and maximum score 5 (highly agree) (Table 8). For this variable respondents response showed mean of 3.17 and 1.06 of standard deviation based on the likert scale score values. However, the likert scale score value for increased access to funds showed minimum score 1 (highly disagree) and 5 (highly agree) and mean value of 3.24 and 1.01 of standard deviation.

The third factor is attraction of local investment; revealed minimum score 2 (disagree) and maximum score 5 (disagree) and mean value of 3.28 with a standard deviation of 0.97. The fourth variable is increased market liquidity and value that showed minimum score of 2 and maximum score of 5 with mean value of 3.20 and a standard deviation of 0.76. The fifth variable better understanding of risk and return showed minimum score of 1 and maximum score of 5 with mean of 3.17 and standard deviation of 1.14 from the mean.

Thus, based on the mean value showed that most respondents were agreed for the above five factors to affect the IFRS adoption process and the variance revealed that the variation among respondents view point for each variables minimum.

Constraints to IFRS adoption

The third major factor for IFRS adoption process is

Table 9. Constraints to IFRS adoption.

Constraints to IFRS Adoption	N	Minimum	Maximum	Mean	Std. Dev.
Short time frame for adoption	200	2.00	5.00	3.42	0.89
High cost of staff training	200	1.00	5.00	2.89	1.10
High cost of acquiring technology	200	2.00	5.00	2.99	0.78
Staff Unwillingness to acquire IFRS training	200	1.00	5.00	2.95	0.91
Lack of knowledge and experience in audit firms	200	1.00	5.00	2.98	0.93
Valid N (listwise)	200				

Source: Own Survey Result (2019).

constraints to IFRS adoption. Under this variable there are 5 factors that affects the adoption process. These are short time frame for adoption, high cost of staff training, high cost of acquiring technology, staff unwillingness to acquire IFRS training and lack of knowledge and experience in audit firms (Table 9).

The descriptive statistics result for short time frame for adoption process showed 2 (disagreed) for minimum score and 5 (highly agree) for maximum for the liker scale scores and the average mean showed 3.42 and its standard deviation from the mean for all respondents were 0.89. The second factor (high cost of staff training) showed 1 for the minimum score and 5 for the maximum score value that ranges between highly agree and highly disagree with mean value of 2.89 and standard deviation of 1.10 form the average number.

The third variable that is high cost of acquiring technology showed 2 (disagree) and 5 (highly agree) for the maximum likert scale value score and its mean value score showed 2.99 and a standard deviation of 0.91. The fourth variable staff unwillingness to acquire IFRS training also showed minimum score 1 (highly disagree) and maximum score 5 (highly agree) for the likert scale values and mean of 2.95 and standard deviation of 0.93. The final variable lack of knowledge and experience in audit firms also showed minimum value 1 and maximum value of 5 for the liker scale and mean of 2.98 and standard deviation of 0.93 from the mean.

Suitable for IFRS adoption

The major factor is suitability for IFRS adoption. The respondents explained that IFRS would simplify the process of preparing financial statements for entities. The respondents response rate for this variable showed minimum score 1 (highly disagree) and maximum score of 5 (highly agree) with mean value of 3.11 and standard deviation of 1.28. The second variable is IFRS which will improve analysis for decision making process for management and the result revealed minimum score of 1 and maximum score of 5 with mean value of 3.16 and standard deviation of 1.35 (Table 10).

The third variable is IFRS's enhanced accuracy and reliability of data and reporting for organizations. The minimum response rate showed 1 (highly disagree) and maximum score of 5 (highly agree) with mean value of 3.06 and standard deviation of 1.34. The fourth variable found is IFRS has best intercompany comparison of financial statement with minimum score of 1 and maximum score of 5. The mean score showed 2.95 and standard deviation of 1.41. The last variable found is IFRS implementation will facilitate merger and combination of entities. For this variable the respondents' response revealed 1 and 5 for minimum and maximum score respectively. The mean value showed 3.36 and 1.26 for standard deviation.

Adaptability for IFRS adoption

The fifth main variable is entities ability for adaptability of IFRS adoption process (Table 11). Under this variable there are 6 variables found based on respondents answer. The first factor found was IFRS brings better corporate governance that have minimum and maximum score of 1(highly disagree) and 5 (highly agree) respectively with mean value of 2.98 and standard deviation of 1.55. The second factor IFRS enhances better access to capital market for IFRS adoption process showed minimum score of 1 and 5 with mean value of 2.51 and 1.37 of standard deviation. The third factor IFRS will reduce cost for decision making showed mean of 2.70 with standard deviation of 1.50 and the forth factor IFRS eases using one consistent reporting standard showed mean of 2.93 and standard deviation of 1.50. The fifth factor found was IFRS will make internal audit easier that showed minimum score of 1 and maximum value of 5 with mean of 2.63 and standard deviation of 1.42. The last factor IFRS will facilitate better business risk Management also showed mean value of 2.72 and standard deviation of 1.47.

Factor analysis model

As it is depicted in Table 12, the results showed that the

Table 10. Suitable for IFRS Adoption.

Suitable for IFRS Adoption	N	Minimum	Maximum	Mean	Std. Dev.
IFRS would simplify the process of preparing FS	200	1.00	5.00	3.11	1.28
IFRS will improve analysis for decision making	200	1.00	5.00	3.16	1.35
IFRS's enhanced accuracy & reliability	200	1.00	5.00	3.06	1.34
IFRS has best inter- company comparison of FS	200	1.00	5.00	2.95	1.41
IFRS implementation will facilitate Merger	200	1.00	5.00	3.36	1.26
Valid N (listwise)	200				

Source: Own Survey Result (2019).

Table 11. Adaptability for IFRS Adoption.

Adaptability for IFRS Adoption	N	Minimum	Maximum	Mean	Std. Dev.
IFRS brings better corporate governance	200	1.00	5.00	2.98	1.55
IFRS enhances better access to capital market	200	1.00	5.00	2.51	1.37
IFRS will reduce cost for decision making	200	1.00	5.00	2.70	1.50
IFRS eases using one consistent reporting standard	200	1.00	5.00	2.93	1.50
IFRS will make internal audit easier	200	1.00	5.00	2.63	1.42
IFRS will facilitate better business risk Mgt	200	1.00	5.00	2.72	1.47
Valid N (listwise)	200				

Source: Own Survey Result (2019).

Table 12. KMO and Bartlett's Test.

Parameter		Value
Kaiser-Meyer-Olkin measure of sampling adequacy		0.837
Bartlett's test of sphericity	Approx. Chi-Square	3037.661
	df	300
	Sig.	0.000

Source: Own Survey Result (2019).

Bartlett test for the data were 0.000 which is less than 0.05. Thus, the result revealed that the factor analysis is significance at less than 1%. In general, the Kaiser-Mayer Olkin of 0.837 (that is 84%) and Bartlett test of 0.00 showed that the model is appropriate and significant at less than 1% level of significance (Table 12).

Communalities

In the appendixes part, results showed the communalities before and after extraction process using the factor analysis model based on the principal component analysis works on the initial assumption that all variance is common. Moreover, Comrey and Lee (1992) suggest that communalities values greater than or equal to 0.45 are considered fair. But variables which have communalities less than 0.45 are not having sufficient explanation and should be excluded from the analysis.

As a result, from 25 component factor indicators, 3 predictors which communalities less than the required level have excluded from the analysis. Therefore, only 22 predictors meet the acceptable level of explanation and retain for interpretation and further analysis purposes. All factors that have eigenvalues greater than one were retained for interpretation and further analysis (Kaiser, 1960). Therefore, as can be seen on appendixes in the total variance table output, only the first five (5) factors are statistically significant which have Eigenvalues >1. Based on the output factor one showed 31.52%, factor two showed 13.97%, factor three showed 8.82%, factor four showed 6.75% and factor five showed 5.156% of phenomenon for the eigenvalue and the overall 5 extracted factors explained 66.22% of studied

phenomenon.

Conclusion

This research is conducted to make factor analysis on IFRS adoption process in west Hararghe Zone. For this purpose, dimension reduction model is applied to reduce factors that affect the IFRS adoption process. In Ethiopia, IFRS adoption process started since 2014 with the establishment of Accounting and Auditing Board of Ethiopia (AABE). The AABE is the statutory body established in terms of the Financial Reporting Proclamation 847/2014, with the primary purpose of protecting the public interest (AABE, 2014).

The board is established to take the mandate for IFRS adoption process in 3 selected financial sectors that are public and private entities, other private entities and SMEs. Accordingly, the board tried to implement the adoption process within these different entities. The entities showed its adoption process fully adopted, partially adoption and others showed willingness and readiness to begin the adoption process.

Based on the findings of our research for IFRS adoption, respondents explained some of the benefits, challenges and factors that affects the IFRS adoption process.

The finding of this research showed some of the benefits of IFRS adoption for entities are better reflection of performance, management of the organization like it for better decision, improved comparability and smoother finance from abroad. The research also identified some of the challenges of IFRS adoption process. The respondents explained user guide complexity to understand, complexity of conversion process, more staff's requirement, need for frequent review of standards, lack of skills to implement, difficult to retain key employees, compliance and enforcement and too costly for implementation are some of the major challenges of the adoption process.

Finally, the dimension reduction model run for factor reduction purposes found five (5) major variables that have 66.22% cumulative initial eigenvalue that have the capacity to explain the IFRS adoption process. Based on the model result adaptability, suitability, constraints, necessity and perceived benefits are the major variables for the adoption process respectively.

Recommendations

Based on the main findings of this research, the researchers forwarded the following possible recommendations for further improvements:

(1) The Accounting and auditing board of Ethiopia (AABE) should take serious commitments and motivations to enter into for full IFRS adoption process in collaboration with the 3 selected entities.
(2) Continuous professional and career development trainings should be given for employees who are working within the 3 sectors who are responsible for the IFRS adoption implementation.
(3) Government should take initiative and commitment for the IFRS adoption and implementation process by allocation adequate budget and other relevant logistics and monitoring and follow up should be taken frequently.
(4) The Federal Audit General Authority, Ministry of Financial and Economic development, Ethiopian Revenue and Custom authority and other concerned bodies should work in partnership and cooperation for the realization of the IFRS adoption process to have common understandings.
(5) Higher education institutions should review their curriculums in line with the IFRS based system for both undergraduate and postgraduate studies and appropriate short-term trainings should be arranged and given for all scholars who are in the teaching profession.
(6) Entities should higher emphasis for the five (5) major variables in the IFRS adoption process that are identified using dimension reduction model. The variables that have maximum eigenvalue are Adaptability, Suitability, Constraints, Necessity and perceived benefits respectively.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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